

VZCZCXRO4567  
RR RUEH DU RUEHGI RUEHJO RUEHMR  
DE RUEH KI #0818/01 1431547  
ZNR UUUUU ZZH  
R 231547Z MAY 06  
FM AMEMBASSY KINSHASA  
TO RUEHC/SECSTATE WASHDC 3935  
INFO RUEHXR/RWANDA COLLECTIVE  
RUCNSAD/SOUTHERN AFRICAN DEVELOPMENT COMMUNITY  
RUEAIIA/CIA WASHDC  
RUCPDO/DEPT OF COMMERCE WASHDC  
RHMFISS/HQ USEUCOM VAIHINGEN GE  
RUFOADA/JAC MOLESWORTH RAF MOLESWORTH UK

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SENSITIVE  
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E.O. 12958: N/A  
TAGS: [ETRD](#) [ELTN](#) [ECON](#) [EAGR](#) [CG](#)  
SUBJECT: ECONOMICS ALONG THE UGANDAN BORDER: THE GRAND NORD  
REF: A. KINSHASA 793

[1](#)B. 05 KINSHASA 944

[1](#)1. (SBU) Summary. EconOff and PolOff visited Beni, Butembo and Kasindi in North Kivu province May 4-6. A strong Ugandan economic influence exists in the region, supported by both legal and illegal cross-border trade. Weak national and provincial-level government influence in the region further contributes to this phenomenon. In addition to the preponderance of Ugandan products in local markets, Asian goods have found their way into this region. While a national highway rehabilitation project should bring eventual economic development, the Nande ethnic community, which has a strong business network, has the capacity to drive growth in the nearer term. End summary.

UGANDAN INFLUENCE  
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[1](#)2. (U) Ugandan influence is pervasive in the Beni-Butembo region, particularly as a result of the extensive legal and illegal cross-border trade that is active all along the Congolese-Ugandan border. Tangible evidence of this sway is the extensive use of the Ugandan shilling; within a zone about 20 miles from the Ugandan border, the shilling is used almost exclusively by local merchants, due largely to Ugandan importers' insistence on payment in shillings. For example, DRC customs officials at the border town of Kasindi told EconOff that they collect most of the taxes in shillings. Furthermore, only a relatively small sum of Congolese francs flow into the economy from Kinshasa via tax retrocessions and public servants' salaries. (Note: The U.S. dollar is also widely accepted. End note.)

[1](#)3. (U) The lack of state-provided social services, particularly medical care, also drives Congolese towards Uganda. Emboffs observed fairly free pedestrian movement across the border. While some appeared to be traders, many carried no goods with them and were likely crossing on personal business, such as visiting family.

[1](#)4. (U) Although neighboring countries are frequently natural trading partners, several factors elevate Uganda's role in the regional economy, including ethnic and familial cross-border ties, the DRC's degraded road system, an underdeveloped manufacturing base, poorly paid military and civil servants, and the consequent weak border control. As in much of the DRC, both primary and secondary roads are in disrepair, making the transport of agricultural products and consumer goods difficult, costly, and time-consuming. Conversely, Uganda has a relatively well-maintained road system, facilitating transport of goods from Kenya and Uganda

to DRC's border. For example, the Ugandan road leading to Kasindi had been repaved the week before Emboffs' visit. Hence, the Grand Nord region imports from Uganda most of the consumer goods and packaged food products it uses. Conversely, the region exports relatively little (at least legally), despite an abundance of natural resources and three growing seasons per year. Uganda even has a bus line that ferries passengers to Entebbe and Kampala from the Congolese border town of Kasindi, and many Congolese use it to conduct trade and visit friends and family.

15. (U) While government officials and business persons are quite open about the extensive trade with Uganda, it is difficult to determine how much of it is illegal. Persons in the private and public sector told EconOff that illegal trade has decreased since the national government regained nominal control over the region, but evidence indicates that it still continues. For example, despite reports from business persons, civil servants and NGO staff that trade with Uganda is extensive, the traffic at the main regional customs post is not heavy, indicating that trade also occurs at numerous unofficial points along the porous border. According to Kasindi customs officials, only about ten to twenty trucks pass daily through Kasindi, the main official customs post. Emboffs' observations during the two-hour drive from Beni to Kasindi, along the only route between the two towns, support this statement.

16. (SBU) The illegal export of wood and coffee is openly discussed, although no one Emboffs talked to would admit to knowing anyone directly involved in this trade. A World Wildlife Fund (WWF) program manager told EconOff that he estimates about 85 percent of the wood exported from the DRC to Uganda is done so illegally, and he concurred with

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Emboffs' information that the FARDC is involved in this trade at Kasindi and unofficial border crossings. The director of Beni's OCC (the DRC's standards control agency) said the illegal export of wood is a "serious problem." He said that elements of the military are involved in the illegal trade because salaries are too low and irregularly paid, and hence some soldiers seek other income sources. The local Congolese Central Bank (BCC) representative (who is also the Beni branch manager of the Commercial Bank of the Congo) estimated that at least 40 cubic meters of wood per day exits the DRC illegally. Although customs officials in Beni, Butembo and Kasindi claimed that this illegal trade has decreased, all directly or indirectly admitted that the FARDC plays a role in illegal wood export by pressuring customs officials to let trucks pass through without inspection of the contents.

17. (U) Coffee is also exported legally and illegally, both overland and via Lake Edward, according to EconOff's contacts in the region. However, disease has devastated the Arabica coffee crops in the last few years, substantially reducing the production. Reliable production figures are not available. The president of the Chamber of Commerce in Butembo told EconOff that neither the National Coffee Office nor any other government body has helped coffee farmers combat the disease.

18. (SBU) Artisanal gold, diamond and coltan mining occurs in the region, and evidence indicates that little if any of these precious minerals exit the country through official channels. For example, the Beni OCC representative said that his office has never used the spectrophotometer it purchased to test precious minerals, because none have passed through the OCC. He estimated that about five to ten kilograms of gold per month enters Uganda from the DRC, much of it in small bags or even pockets. The BCC representative said that Ugandan customs officials facilitate this trade by not requiring certificates of origin.

THE GRAY MARKET?

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¶9. (SBU) What is less clear is the extent to which quasi-legal trading occurs; that is, the extent to which traders pass through official customs points but pay bribes to have customs and other export-import taxes and fees reduced or eliminated. Certainly conditions are ripe for customs fraud, because the GDRC is not removing many of the officials engaged in the fraud, and is receiving little or no official salary, and traders face a multiplicity of export fees. The GDRC has not yet replaced all of the revenue collectors who have held their posts since before reunification and who have often participated voluntarily or under duress in customs fraud. Most such officials are from the region and therefore have close ties to their community, giving them further opportunity and incentive to develop and participate in customs fraud schemes.

¶10. (SBU) Low salaries also foster participation in customs fraud. The OCC office director in Beni claimed that the agency's employees receive salaries ranging on average from USD 150 to 500 per month, which is higher than most government staff earn but still low enough to create temptation. The OFIDA official in Kasindi said he receives no salary, only "primes" (bonuses) and declined to tell Emboffs his employees' bonus range. (Comment: The OFIDA official's refusal to reveal income gives credence to the widespread belief that customs officials take a portion of proceeds. End comment.) Further, traders must deal with at least four government services collecting taxes at the border: OFIDA (customs agency), OCC, OGEFREM (the DRC's freight agency); and DGRAD (the administrative fees' collection agency).

¶11. (SBU) Tax collection officials in the region told EconOff that tax revenues have increased since June 2003. For example, an OFIDA official in Butembo told EconOff that regional revenues increased from USD 250,000 to USD 900,000 from 2004 to 2005. (Comment: The actual revenue collected is undoubtedly higher. End comment.) He added that only about USD 30,000 comes from exports from the DRC. Further, revenue collectors said to EconOff that official revenue increases are relative, because militia controlled the cross-border trade pre-unification, and hence official tax revenues essentially did not exist. Revenue officials at Kasindi agree that significant export revenues escape official channels; they told Emboffs that, while they have border agents dispersed throughout the region to monitor trade on

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the frontier, they cannot control activity in the DRC's Virunga National Park, which also borders Uganda.

ASIAN INFLUENCE TOO?

¶12. (U) In addition to imports from Kenya and Uganda, business persons have developed strong trading relationships with Asian partners, including Dubai, Indonesia and China, importing significant quantities of consumer goods, vehicles and equipment from these countries. The president of the Chamber of Commerce in Butembo told EconOff that he travels regularly to Dubai, Indonesia and other Asian countries to purchase goods for import into the DRC. Nearly all the cars in the area are right-hand drive, and Chinese consumer products such as soap were found in the hotels in which Emboffs stayed. However, Emboffs saw no evidence that Chinese or other Asians have a significant physical presence in the region.

A ROAD TO SOMEWHERE

¶13. (U) Government officials and business persons are optimistic that the completion of the 255-mile World Bank-funded highway from Beni to Nyanya, Orientale province, will facilitate domestic trade (reftel B) and reduce reliance on imports from Uganda and other countries. Another road -

albeit not a very good one - links Nyanya to the Congo River town of Kisangani, several hundred miles upriver from Kinshasa. Traders told EconOff that opening this trade route will give them better access to goods either brought into or produced in Kinshasa, and will create new markets for the region's products. Some business persons told EconOff that they look forward in particular to importing American goods via Kisangani.

¶14. (U) Cheaper, more efficient exchange of goods and food products via a western trade route is probably not a short-term reality, however. First, rehabilitation of secondary roads is also necessary for the transport of regional products. Further, even if the overland route to Kisangani is well-maintained and can accommodate container trucks, the fluvial transport sector is far from ready to meet expanded demands on it. Unlike during the colonial era, few large commercial barges and boats ply the Congo.

¶15. (U) Nevertheless, if stability increases, conditions will be promising for further economic revival because of the abundance of natural resources, some industrial experience, ready access to a large Eastern market and the initiative, self-sufficiency and business acumen of the Nande -- the dominant ethnic group of North Kivu's Grand Nord. The Nande, who are already relatively prosperous, are particularly poised to avail themselves of improving economic conditions. Even in Beni, seemingly the less prosperous of the two main towns in the area, there are three factories in operation - coffee and papaya processing plants and a wood treatment factory. (Note: Vice President Jean-Pierre Bemba's family owns the wood treatment factory. End note.)

¶16. (U) Butembo is far more vibrant than Beni and, according to the president of the Chamber of Commerce (FEC), has no provincial or national support. The business community has funded the construction of the airport, a small hydroelectric plant and local schools, and is in the process of building a new town hall and FEC headquarters. In addition to the coffee factory EconOff saw - which has over 100 employees, mainly women - the FEC president told EconOff that tea processing and soft drink bottling factories exist. The FEC president also expressed interest in developing the fishing and tourism industries on Lake Edward.

COMMENT

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¶17. (SBU) Along the Grand Nord's border with Uganda are both positive and negative examples of economic activity. The Nande, particularly in Butembo, show how a community can thrive in spite of, or perhaps even because of, the absence of national government presence. Even the often criticized Ugandan economic influence is not an entirely negative phenomenon, especially to the extent that it makes more goods and services available. However, what must be firmly addressed is Uganda's role in supporting illegal trade, particularly of gold. To do so, the GDRC must continue to

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install national control, replace entrenched customs officials with a larger cadre from another region and ensure that replacements - along with the military - are better paid. The GDRC and the international community must also continue to pressure the GOU to install import controls on its side of the border.

MEECE